FINAL TRANSCRIPT

Ascend Wellness Holdings

First Quarter 2021 Investor Call

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PRESENTATION

Operator

Good day and thank you for standing by. My name is Anas and I will be your conference operator today. At this time I would like to welcome everyone to AWH First Quarter 2021 Investor Call. As a reminder, I would like to advise listeners and participants that today's call is being recorded and copy of that recording will be available following the completion of the call.

I would now like to hand the conference over to your speaker today, Corey Sheahan, EVP of Legal. Please go ahead.

Corey Sheahan — Executive Vice President, Legal, Ascend Wellness Holdings

Good afternoon and welcome to AWH's first quarter 2021 investor call. The presentation that accompanies this call can be found on our website, www.awholdings.com/investors.

Before we proceed I would like to remind you that there are a number of risk factors and other cautionary statements contained in our SEC and SEDAR filings, including our registration statement as amended on Form S-1 and our 10-Q, which we expect to file in the next week. We will not review those risk factors and other cautionary statements on this call; however, we encourage you to read them carefully.

Various remarks that we make on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect management's current view only and we undertake no obligation to revise or update such statements or to make additional forward-looking statements in the future.

During the course of today's call we will be referring to non-GAAP measures as defined and reconciled in our earnings materials. These non-gap measures, as defined by AWH, may not be comparable to measures with similar titles used by other companies.

Please also note that all growth rates noted in this call and in the presentation are calculated on a year-over-year basis unless otherwise specified.

On today's call we have Abner Kurtin, Chairman, Founder, and CEO, and Daniel Neville, our CFO. With that, let's turn the call over to Abner.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Thanks, Corey.

I just want to let you know we are live and in person in our New York office with Corey, Dan, and Jason, SVP of Finance. This was a key part of the team, with our Controller, Roman, to get us over the hump in the IPO. As all of you know, it is a huge lift in this industry and any industry and we're really excited that we were able to get it done on time.

Good afternoon and welcome to our first earnings call as a publicly traded company. This continues our commitment to transparency with our investors as we have held quarterly calls with our investors as a private company. May marks the three-year anniversary of our founding and we've come a long way in those three years, going from a concept with three employees working out of Frank's office to a public company with over 1,200 employees expected to generate $320 million to $340 million in revenue, based on our guidance released today, in 2021.

I'd like to express my appreciation to our stakeholders for belief they've demonstrated in us and we also greatly value and welcome our new shareholders who participated in the IPO. We are excited to be the first U.S. cannabis SEC-registered IPO with Delaware governance and audited GAAP financial statements for 2019 and 2020, furthering our commitment to good governance and transparency.

Along those lines, we're pleased to announce today Joe Hinrichs has joined the board. We are honored to have the former president of Ford Motor Company as our newest board member. To have someone with that experience as a board member shows how far the Company and industry has come. We now have a majority independent board. Welcome aboard, Joe.

We think this is a perfect time to be a public cannabis company. We believe this is the most important consumer product trend of this decade and this will be a $100 billion market by the time the decade is completed. We do not know what will happen in Washington, D.C. this month or this year. What we do know is that every quarter that passes another state expands their medical program and is closer to adult use cannabis. As of now, over two-thirds of Americans have access to legal cannabis. Almost every social issue since the founding of our country eventually becomes law of the land once two-thirds of Americans support it. More importantly, we are proud to provide a product that makes people feel better as they go about their daily lives.

With that, let's turn to a snapshot of our Q1 2021 results.

First quarter revenue increased 22% sequentially to $66 million and over 190% year over year. We reported adjusted EBITDA of $16 million, a 58% increase sequentially, which represented a 550 basis point of margin expansion relative to the fourth quarter. We saw strength in both our retail and wholesale business during the quarter and expect to more than double our revenue in 2021 as we turn on additional assets and realize the full-year run rate of assets that we brought on line over the course of 2020.

We commenced trading on the CSE on May 4, 2020 and are expected to be quoted in the U.S. on the OTCQX shortly, pending FINRA approval. We completed an offering of 11.5 million shares at USD$8 per share, raising net proceeds of $86 million, including the green shoe. Pro forma for the offering we have 169 million basic shares outstanding. We have pro forma net cash of $149 million. In a few minutes, Dan will dive into our financial results and expectations for the year in more detail, and I'll now provide a brief overview of our business and competitive position.

This is a slide that we presented in May 2019, which laid out our overall vision and strategy. I've heard a lot of other cannabis CEOs recently highlighting some of these core tenets on their earnings call. We like to hold ourselves accountable and decided to go back and see how we did against our strategy in 2019.

Go Deep and Not Wide. We give ourselves an A for staying focused and avoiding markets that might have proved a short-term boost but would not, in our opinion, drive long-term value.

Go Big or Go Home. We give ourselves a B+ here with leading positions going forward in Illinois, Massachusetts, and New Jersey, and soon to be New York, but we have a ways to go in Michigan and Ohio and potentially looking at other markets within our core area east of the Rockies.

Location, Location, Location. We give ourselves an A+ here. We think it is a core competency of the Company to find and open flagship locations.

Bring Cali East. We give ourselves a B here. Branding has taken somewhat of a back seat while we've focused on scaling the business and building a consistent product that's available every day to our consumers. We recently announced the deal with Lowell Farms and look forward to additional deals to bring our branding portfolio to where it needs to be.

Top Talent. We give ourselves a B+ here. We feel good about where we are but know that we need more talented professionals and, like other companies in the industry, are struggling to find enough talented professionals from other industries that can be successful in cannabis.

Redefining Retail. We give ourselves a B+. We think we've done an excellent job in redefining cannabis retail and would put our retail experience up against any of our competitors. In the long run, we want to compare ourselves to retail leaders such as Starbucks and Apple, and we have a way to go to hit that goal.

We believe Ascend is what we call MSO 2.0. We did not win merit-based licenses like many of the companies in the space. We came in with an investment company approach and purchased what we believe are the best assets in the best states in the country, focused on the eastern part of the United States in limited licensed markets only. As a result, we are in four of the top recreational markets in the U.S. We believe that the bulk of the profits will be in the early stage of recreational markets in these states with the most limited licenses. We are also attempting to be a top player in each of our states. We strongly believe that the highest margins will be achieved by the top operators.

We also have a proven M&A strategy in the space. We have acquired assets in New Jersey and Chicago, among others, at very attractive prices compared to recent transactions. We went from nowhere to a top-three operator in Illinois in under three years by aggressively building out our retail network and cultivation capabilities. We also strongly believe in flagship locations and that the original locations in the industry often have a disadvantage because they are in difficult industrial and other non-retail locations. We have flagship locations in all the top cities in each of our markets. With our pending acquisition of MedMen New York, we will have flagship locations in Boston, Chicago, New York, and Northern New Jersey. We couldn’t be more excited to close the MedMen New York transaction as we see New York as being a critical part of our long-term growth story.

While Ascend is under three years old, we believe we have acquired some of the best licenses and local real estate in each of our markets. In 2018 and 2019 we spent our time acquiring these assets, getting local permitting, and raising the capital to pursue this project. As you can see on the slide, we focus on population per dispensary. It is clear from this chart why we are so excited about our entry into the New York market with the expansion of our retail and wholesale business in Massachusetts and continued success in Illinois. This slide also shows why Michigan is a challenging market. We believe that grading by population per dispensary we can drive long-term shareholder value instead of focusing on short-term accretion, which we do not believe is necessarily correlated to long-term shareholder value.

In 2020 we were able to execute a market-leading position in Illinois as well as beginning to operate in a number of our states. This year we expect to turn on the bulk of our assets as we complete an aggressive expansion of our cultivation capacity. Illinois is the blueprint we will utilize to achieve scale in each of our states we operate in and 2022 will be the year where you see the full earnings capacity of our Company, but even in 2022 you will not see a meaningful contribution from New York.

We believe that we have a highly desirable stable of flagship locations. As evidence of the success of the retail strategy, I'd like to share some statistics of our Collinsville location. In the first quarter we served an average of 1,300 customers a day. Over 90% of our transactions were placed online and the average transaction size was $130. Sales almost tripled at River North in Chicago as Chicago comes to life and we've improved our product selection and efficiency. We recently opened, finally, our flagship in Downtown Boston at the end of April. This project was two years in the making and required significant work with our state and local regulatory partners. This is the first adult-use dispensary in the city centre of a major northeastern city. We are equally as excited to announce that our Rochelle Park location, which is half a mile from the Garden State Plaza on New Jersey Route 17, opened on Sunday. We are excited to have the only Manhattan store in a prime retail location.

Next I'll talk about some specific state developments.

Illinois. While the state is currently doing $100 million per month in sales, Colorado is doing more than two-and-a-half times that with less than half the population. On the cultivation front, we are well underway on our greenhouse expansion and we have seen improvement in yields and production and throughput as we continue to dial in the facility. We will need that capacity to service the tidal wave of demand that continues to come in Illinois. Wholesale sales continue to see robust growth due to the upgrades we've made to our sales organization. We currently sell to 95 out of the 101 dispensaries that are currently open.

New Jersey. We continue to make excellent progress with our newly-acquired asset. In the month since we closed the acquisition we've renovated and rebranded the existing Montclair dispensary, secured local and state approvals for our satellite locations in Rochelle Park and Fort Lee, and our well underway on phase-one expansion of the Franklin cultivation. Since we took over, we've doubled our average customer count and tripled sales out of Montclair. Our near-term priorities in New Jersey are continue to aggressively expand the Franklin cultivation and work towards the opening of our Fort Lee location in Q4 of this year.

Massachusetts. The market continues to grow strongly and while the retail market is saturated, the major cities in the eastern part of the state are underserved. This is our focus. The wholesale market remains robust. We expect to open Newton dispensary this summer and our New Bedford location later in the year. We remain on track to finish our phase-two expansion of Athol by the end of the year.

Michigan. Michigan is one of the largest cannabis markets in the country; however, the retail segment is oversaturated. In Q1 we opened our second Grand Rapids dispensary. While we're starting to see some green shoots now that we have six dispensaries open, Michigan remains our most challenging market generally and our lack of vertical integration in the state, combined with costs associated with the Lansing start-up, have weighed on margins. At the end of April our first flower rooms were completed and turned over operations. We expect the first harvest out of Lansing by the end of July. We look forward to a path to scale in this state and, if we can't get there, we'll explore strategic alternatives.

New York. The New York market has been a challenging medical market. We believe that it is at an inflection point and we are extremely excited to take over management of their stores following regulatory approval. We will continue to work to close the MedMen transaction by year end.

Ohio. We see Ohio as one of the least talked about and most exciting medical markets. We're working with our M&A team to reach the five dispensary limit. On May 5th we closed the acquisition of the Hemma cultivation license. We anticipate our cultivation and processing expansion shortly. We are on the march to become a top-tier MSO and not just a top-tier MSO but one that is focused exclusively east of the Rockies.

Board of Directors. Our board is now majority independent and experienced in scaling operations and allocating capital. Frank and myself are co-founders of the Company. Emily and Scott are early investors and experienced in allocating capital and helping companies scale. In addition, by adding Joe we bring in some of his significant experience in managing employees in a diverse and inclusive manner. We believe we have assembled the right team for the current phase of AWH's growth.

Now I'll pass it over to Dan and he'll take you through the quarter in more detail.

Daniel Neville — Chief Financial Officer, Ascend Wellness Holdings

Thanks, Abner.

We're excited to report record results across the board for the quarter. Total system revenue increased $16 million or 27% sequentially to $76 million compared to Q4. Net revenue excluding intercompany sales increased $12 million or 22% to $66 million.

Adjusted gross margin was 49.3% compared to 44% in Q4 of 2020. The increase was primarily driven by the increased production efficiency in our Illinois cultivation facility. Retail gross margins were flat sequentially. Gross profit dollars increased 36% from Q4 2020 to $33 million. Our gross margin is currently lower than our peers due to our 60/40 retail/wholesale split during the quarter and the inclusion of capitalized rent for our cultivation facilities in cost of goods sold. We expect our gross margins to expand over time as we move towards a more balanced retail/wholesale split and achieve vertical integration in each of our markets.

Our adjusted EBITDA for the first quarter was $15.8 million, which represents an increase of $5.8 million or 58% sequentially. Our EBITDA margin improved 550 basis points sequentially to 24% as we continued to turn on assets and grow revenue faster than SG&A expansions. I would also like to note that our Q1 adjusted EBITDA includes $5.8 million of rent payments related to sale leasebacks. Some competitors in the industry exclude rent expanse in EBITDA and report this below the line as interest expense.

During 2020 we built out the corporate infrastructure that will enable us to scale this business and achieve our growth objectives in 2021 and beyond. I'd like to point out that we do not run a collection of trade assets with duplicative corporate overhead structures. This should allow us to grow revenue faster than SG&A expenses over time and achieve solid operating leverage.

This slide provides an overview of our Q1 key operating metrics. At the end of the quarter we had 14 operating and consolidated dispensaries and opened three more after the end of the quarter. As a reminder, our results do not include the pending acquisition of the dispensary in Ohio, which is currently managed under a consulting agreement. We expect to close that transaction in the coming months. During the quarter we completed 411,000 retail transactions at an average ticket of $111.

On the cultivation front, four of our five cultivation facilities are on line today, representing 47,000 square feet of canopy. We sold 8,600 pound equivalents at an average price of $3,500 per pound in the quarter. We currently have cultivation expansions well underway in Illinois, Massachusetts, Michigan, and New Jersey. These cultivation expansions are on track to come on line by the end of the year and these four expansions represent 150,000 square feet of canopy, which will take us up to 225,000 square feet of total canopy.

As Abner noted, we opened two dispensaries during the first quarter. Total transactions increased 28% sequentially from $321,000 in Q4 to $411,000 in Q1. Revenue per transaction declined 6% from $118 to $111 per transaction in the first quarter. This decline was driven by geographic and medical versus adult-use patient mix. We added dispensaries in Chicago and Michigan in the quarter, which have a lower average ticket than downstate Illinois. Additionally, average tickets for medical customers are significantly higher than recreational so, as we serve more recreational customers over time, we expect our average ticket to tick down over time. Total retail revenue increased 20% to $46 million as the increase in transactions was partially offset by the decline in revenue per transaction. Annualized revenue per dispensary increased 4.2% sequentially to $14.4 million per dispensary.

On the wholesale front, pound equivalents sold increased 17% from 7,700 pounds in Q4 2020 to 8,600 pounds in the first quarter. Revenue per pound equivalent increased 18% from 3,000 in Q4 to 3,500 in the first quarter. This combination drove 38% sequential increase in gross whole sale revenue from $22 million in Q4 2020 to $30 million in the first quarter. Note that Q4 included some one-time bulk sales in Michigan that artificially depressed our revenue per pound in the fourth quarter of last year. We're seeing stability in wholesale pricing across all of our markets.

As a reminder, the difference between our gross and debt revenue is intercompany revenue sold to our own dispensaries, which was $10 million in the quarter. On a net basis, our wholesale revenue grew 26% sequentially to $21 million.

The Company's robust revenue performance is a result of more legal consumption, more through-put through our high-volume dispensary footprint, and robust third-party demand for our quality products in our current wholesale markets. This is a $100 billion market and more people are moving over to legal consumption every day.

Turning to guidance, we expect to generate between $320 million and $340 million of revenue this year, which represents a 123% to 137% revenue growth year on year. This does not include revenue associated with our pending acquisitions in Ohio or New York.

Since the end of the quarter we have successfully opened three additional dispensaries, including our flagship in Boston, our fourth dispensary in the Chicago area, and our second northern New Jersey locations. We also began cultivation operations in our Lansing, Michigan facility and expect our first harvest in the third quarter.

All of the assets we have driving the guidance are open today, so the timing of bringing on these assets, which has always been problematic for this industry, is not an issue for us. Taking into account the additional assets we've turned on year to date, as well as our current run rate performance, we feel confident in our revenue guidance for the year.

Moving on to our capital structure and balance sheet, we radically restructured our balance sheet post IPO with $125 million of convertible debt that equitized upon the IPO. We finished the quarter with $252 million of total debt. Pro forma for the IPO and the convertible debt conversion, we have $127 million of debt. This total includes $34 million of seller financing related to the Midway and HCI minority interest acquisition and $17 million of financing liabilities for certain dispensary leases.

We ended the quarter with $63 million of cash. Net IPO proceeds, including the overallotment and net of fees and commissions, was $87 million. Including the net IPO proceeds, pro forma quarter end cash was $149 million.

In the first quarter, cash flow from operations was negative $8 million. Adjusted EBITDA of $16 million was offset by an $11 million use of cash for inventory as we built up retail inventory to support dispensary openings, saw higher retail sales in our existing dispensaries, and supported our wholesale growth through greater wholesale inventory. Testing delays in Massachusetts also contributed to the increase in inventory, but we believe that issue has been resolved at this time.

Cash tax payments during the quarter were approximately $4 million, cash interest was $4 million, and other working capital uses were $4 million.

On a pro forma basis for the IPO and debt conversions, we have 169 million common shares outstanding. In addition, there are 2 million dilutable warrants outstanding and 2.5 million unvested restricted stock units. The dilutive impact of the warrants was calculated using the treasury stock method.

Our goals. Over the next 18 months we will continue to be laser-focused on executing on our plan, finish the cultivation expansions, opening the remaining dispensaries, and use the blueprint we created in Illinois in all of our other markets. We will strive to allocate capital to the best limited license states east of the Rockies and become a top-tier MSO. While it was great to spend time with our current and new investors during the IPO road show, we're excited to turn back our focus to execution in our existing operations and turning on the remainder of our assets. We've accomplished a lot to date, but the job's not finished.

I'll now pass it over to Abner to take some Q&A questions.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Operator, we're ready for Q&A.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have any questions, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received.

Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Your first question comes from Bobby Burleson with Canaccord. Bobby, please go ahead.

Bobby Burleson — Analyst, Canaccord Genuity

Hi. Thanks for taking my questions. Just curious, on the guidance range, what the biggest swing factors might be there. Is it timing of the cultivation assets that are ramping in the second half or is it timing of stores that you're still opening in Massachusetts or something else?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

We feel very good about guidance. We know how important it is to meet the expectations of our investors and we feel very confident in the guidance we're providing you. Most of the, if not all of the, assets that are driving our revenue are currently open. The big swing factors were the additional capacity or opening of the Lansing asset, the ability to get Friend Street open, and the ability to get Rochelle Park open.

While we do have a number of things coming on line in the second half of the year, they don't really drive 2021 numbers. Everything that really is driving the bulk of 2021 is on line and producing and producing in line with expectations. That's why we feel able to give that kind of guidance so early coming out of the gate.

Bobby Burleson — Analyst, Canaccord Genuity

Fantastic. And then just a quick follow up. In terms of New York, there's going to be a pretty big gap until adult use comes on, it sounds like, but you've got the expansion of qualifying conditions for the medical program, you have flower coming soon, so curious, you know, how significant of a medical market are you expecting there at the time that you start to integrate that acquisition and bring your capacity on line in New York?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Good question. Thanks for asking it. We think New York is one of the huge stories of this industry but, from an economic or revenue point of view, it's really a 2023 story when we really see the bulk of adult sales. So for us, when you look at our 2022 numbers, as estimates start to come out there, remember that has very little contribution to us from New York.

That said, we agree with you. We think that the medical market in New York is really starting to take off. We saw that in Illinois as we moved towards adult use and we've seen that in many of the states. We have ground flower in the market, we have whole flower coming to the market pretty soon, we hope and, as you suggested, the expansion of conditions. We expect that to continue to ramp over the course of the next year and a half, particularly since New York has not been the most robust medical market. In addition, the MedMen stores have underperformed the state given MedMen's restructuring process. We think we can do a lot of good by turning the stores from red to blue and opening them, as I said, the stores, as soon as the deal closes.

Bobby Burleson — Analyst, Canaccord Genuity

Great. Thanks for taking my questions.

Operator

Thank you. Your next question comes from Matt McGinley with Needham. Matt, please go ahead.

Matt McGinley — Analyst, Needham & Company

Thank you. For the wholesale business, your sequential growth into the first quarter was outstanding. I'm wondering if you can help me frame how that would look into the second quarter. I don't think that the Illinois expansion will be operational until, I think, the third quarter, and in Massachusetts I'm not sure how inventory deployed to Friend Street or the expansion to the kitchen you had in Athol would impact that into the second quarter. So can you help us think about what that would look like as far as growth into the second quarter?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Yeah, let me give a quick overview and then I'll turn it over to Dan.

We're marching towards a goal of 50/50/50. That's a 50 wholesale, 50 retail mix, and 50% of what's sold in our stores coming from our products. So that's where we're going long term. As you know, and as we said at the IPO, we started at a 70/30 basis, a little bit more even, because it's easier to open stores than grows and our grows are coming on line fast. We see the improvement in the second quarter as indicative of what's going to happen to this, sorry, the first quarter is indicative of what's going to happen to this company over the next couple years as wholesale continues to outpace retail. It's a very stair-steppy process though as capacity comes on line. And as you suggested, a lot of the big capacity expansions from here come on line in the second half of this year and therefore won't impact this year's sales as much.

I'll turn it over to Dan to go through some of the specifics.

Daniel Neville — Chief Financial Officer, Ascend Wellness Holdings

Yeah, I would say, no, our Q1 Athol sales were weighed down by the testing delays that we saw in Massachusetts during the quarter. So, while we experienced pretty significant growth out of our Illinois cultivation in Q1, we're producing well out of our Athol cultivation as well, we didn't realize as much on the revenue line item as we would have liked in Q1 and there's additional growth to be had in Q2.

Additionally I would say our wholesale business prior to Q4 or our kind of historical growth within that business was weighed down a bit just by figuring out issues on the supply chain side of things, bringing in the right team to be calling on the Illinois market day in and day out. So we built up some inventory over the course of 2020 that we were able to unlock over the course of Q1 and will continue to unlock over the course of Q2.

So we expect to continue to have robust growth in Q2 as well prior to our cultivation expansions in Illinois and Massachusetts coming on line later in the year.

Matt McGinley — Analyst, Needham & Company

Got it. Thank you. And on the gross margin side, you had, again, a very healthy increase in gross margin when you strip out the noise related to D&A. I think, Dan, in your prepared remarks you noted that the retail gross margin was flat, which would imply that your overall production efficiency is surging here. Is there anything else in there that we should think about? Are there any temporary mix shifts that would have impacted that quarter? Or is this sort of the steady build, as Abner had noted, on the gross margin side that will, I guess, march up over the course of this year?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

One thing we like to note is that our gross margins are pulled back by about 400 to 500 basis points of rent expense relating to sale leaseback transactions that, if you look at other operators in the space, would be below the line. We think that's the right way to do that, because that gives us the 280E efficiency of being able to deduct those for tax purposes, but it does give us a lower reported gross margin than some of our competitors with sale leaseback transactions.

Daniel Neville — Chief Financial Officer, Ascend Wellness Holdings

Yeah. And, Matt, I think there's two things that play in the quarter. One is, you know, within that rent expense we have TI associated with the build-outs that are currently underway in most of our markets. So that rent expense and the TI that we're paying for the expansion of those facilities is, for the most part, baked in those Q1 numbers. But we're increasing our production, increasing our sales, that rent expense is not going up, so we get some pretty significant leverage on the gross margin line item with that fixed rent base as we bring additional sales on line and turn on these additional cultivations. And then specifically in the quarter we are mixing up a bit. We've rolled out live resin pens to the market, which have higher yields and a better cost profile than we have on the distillate side of things. We're also mixing up into pre-roll categories, gummies, some other edibles as well. So that, combined with just overall better efficiency out of Barry and dialing in that facility, were the primary drivers. And look, I wouldn't, as Abner said, we're kind of driving to that 50/50/50. I wouldn't expect this type of dramatic jump going forward on a sequential basis.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Yeah, look, we've got three large cultivation projects which we highlighted in the road show. One is Athol, where we're quadrupling canopy. The others are Franklin in New Jersey and New York where we're doing large expansions. As I said before, if I had a dollar to invest in this industry, I would invest it in New York and New Jersey cultivation. I think that's similar to what some other CEOs have said. And it's that big leap, step function leap in our cultivation capacity comes on line and starts generating revenue in the beginning of 2022. That's why I think, besides just economies of scale, you start just seeing a major margin boost in 2022 from 2021.

Matt McGinley — Analyst, Needham & Company

Okay. Very helpful. Thank you.

Operator

Thank you. We have a following question from Kenric with ATB Capital Markets. Please go ahead.

Kenric Tyghe — Analyst, ATB Capital Markets

Thank you and good afternoon. Abner, can you speak to sort of the puts and takes in Illinois given the timing of your capacity ramp, your current seven stores in the market, and expectations around that next tranche of licenses finally starting to filter through sort of June and July of this year? How do we think about the puts and takes, the evolution of your footprint in Illinois, and how well positioned do you believe you are, not only to sort of defend your existing share of retail but perhaps capitalize on the new license issuance as your capacity expansion comes on stream in the third quarter of this year?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

First of all, it's eight stores now in Illinois, because we opened another store in Chicago. I mean we love our Illinois footprint. We've got four in Chicago and four down state in areas with less competition and, as you know, the southwestern part of the state really exposed to the St. Louis market, which really drives that business. That gives us the ability to add two stores and go up to the ten cap. We like that, because a lot of our competitors are capped out at the ten, so that gives us some power in terms of buying power relative to the competitors. And so if you only have two bullets left, we want to do it in the right way.

We, as everyone else, would love to see these additional stores open. We think Governor Pritzker's plan of giving the next 75 licenses to social equity was great, but where are the stores? It's time to bring those stores on line for the benefit of social equity and the benefit of the consumers of Illinois. And we point out, you know, in the Collinsville store, we saw ourselves open a second store, we saw (inaudible) open a second store, all direct competitors, and we saw no drop-off in business. This is a market in Illinois that has not reached the inflection point. We do not see cannibalization from additional stores. Another

75 stores to the market, bring it on. It's going to help our wholesale business and we don't think it's going to really materially impact our retail business.

In terms of the wholesale side of Illinois, it's tight. Has been tight. It's very stair-steppy. We saw Cresco bring on a large capacity expansion. I think it was kind of the beginning of the second quarter. That kind of saturated the market for a brief period of time and then more stores opened, more demand came, and we're tight again. And that's, I think, going to be the continued pattern. Like I said, it's a $100 million a month market with $250 million being done in Colorado. You only have seven or eight people really adding to capacity in a big way and it's far, you know, at some point capacity overtakes demand, but I don't think we're close to that. I'm sitting here looking at the mass market and we're sitting here four years into this thing or three years into this thing and we're still at 3,500 to 4,000 wholesale.

So it's hard to raise capital, it's hard to build these things, it's hard to grow product. Capacity expansion is not showing price declines in these markets, which is another reason why we love these markets.

Kenric Tyghe — Analyst, ATB Capital Markets

That's great colour. Thank you. And if I could switch just quickly to Massachusetts, I mean, first off, congrats on Boston. It seems to be a real challenge for anybody. But beyond that, just given how challenging it is in Boston, how has that experience in Boston sort of impacted your thinking again on your evolution in that state, your priorities with respect to capital allocation? Has there been any real change as to how you think about Massachusetts having cleared that hurdle? And obviously, outside of Boston (inaudible), sorry, outside of Boston it's easier in the rest of the state than within Boston, but could you just sort of speak to Massachusetts, sort of the fact that you're finally there, where to from here?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Look, we're bruised and bloody and tired from the Boston experience, but we're excited to have that store open. We're excited that the community of Boston finally gets a downtown store. We're excited to be able to provide it. We also said we've got over 200 SKUs on that menu, probably the highest in Mass. We want to carry all of our competitors' SKUs. We want to be a superstore. We want to introduce the industry to Boston. And we don't want any customer ever to walk out of our store because they can't get a Dogwalkers or a Mindy's or whatever else they want, whether it's our product or anything else.

We do this a lot. We kind of say we go big-game hunting. My partner, Frank Perullo, is probably the best local permitter in the industry and over time, you know, and we're seeing this in Mass more than anywhere else, we're saturated in the west of 495 area, you're seeing significant declines in many of those stores because there's no barriers to entry. In downtown we've got Cambridge and Somerville still waiting for their first rec store, Boston still waiting for the store. I used to live in Wellesley. It's been 80 years and we're still waiting for our first liquor store. This is not a state that moves unbelievably quickly.

The cap is three. We've got Newton ready to open, should open in the next couple of months. New Bedford is another great market right off the highway there. I think it's the fifth or sixth largest city in the state. It'll be the first cannabis store to open there. So we love our three stores. It was hard as hell to get them, but we're really excited where we are, and then to build product to distribute in our stores and others.

Daniel Neville — Chief Financial Officer, Ascend Wellness Holdings

And I would just add, as hard as it was for us, like everyone else is dealing with the same things and that was kind of our, that's our backyard.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

We joke about these markets. Everything we hate trying to get these things open, we love once we're open and everyone else is trying to get open. And these cities, I mean this is not just cannabis. You know, local zoning, real estate, COVID, this is a tough business for any retail, any kind of multi-(inaudible), any anything. So the barriers to entry and limited competition kind of goes beyond what we're going to see really in most markets in the United States, which is why we see the long-term benefit of going after these downtown flagship locations. I mean it's done by Nike, it's done by Apple. This is a pretty common retail strategy when you're going for the best of the best.

Kenric Tyghe — Analyst, ATB Capital Markets

Great colour, thanks so much, and congrats on (inaudible).

Operator

Thank you. Your next question comes from Russell Stanley with Beacon Securities. Russell, please go ahead.

Russell Stanley — Analyst, Beacon Securities

Thanks and congrats on your first release as a public company. Maybe just switching gears to New Jersey, wondering what your thoughts are there and how you're prepping the business, how you're thinking about the eventual opening of the Dal-U(sp.) Centre. There's some uncertainty out there still around when the doors might be allowed to open. But how are you thinking about it, understanding you've got the expansion in Franklin underway and Fort Lee due to open by year end, but how are you business planning around the timing of that?

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Look, we are expanding as much as we can as fast as we can in New Jersey. Any state that has as few licenses and infrastructure as New Jersey has, and New York even more so, needs a lot more capacity to even think about servicing adult use. Curaleaf is the only current player that's wholesaling in size. Obviously, Verano, TerrAscend and others are coming into the wholesale market, but none of them have enough to supply the adult-use market.

A lot of people are expanding, but I don't know exactly when and how much, but in a state with two million that's going to come on line before New York and we've got three stores that I'd put up against anyone else's three stores. Route 17, you know, we've got over 100,000 car count every day. There's room for a huge number of stores on that. To be one of the only one or one of a couple is just amazing. Fort Lee, I mean any store with parking where you can see the George Washington Bridge is a win in any industry. And finally, Montclair, downtown, great neighborhood, expanding parking into the (inaudible) city, a mayor who really seems to be working with us as a partner, you know, we're thrilled to be there.

We think that, you know, we're using January 1, 2022 in our model. Look we could get some sales in the fourth quarter. Certainly the governor would like that. But I don't know if it's going to meaningfully impact anyone's results. Certainly not ours. We have enough. We have plenty of business servicing the medical community. Normally when you enter a mature medical market that's going rec, it's tough until the rec markets. We've been, what, three days into Rochelle Park. We're shocked at how well we're doing for a mature medical market. So New Jersey is fabulous. I think that maybe Acura(sp.) can really benefit from adult use in 2021, but for most of us we're going to need additional capacity to service the market as we want to.

Russell Stanley — Analyst, Beacon Securities

That's great colour. Maybe, if I could, just one more on the M&A front. Obviously, understanding the strategy go deep not wide, but wondering what your thoughts are at this point on adding additional states. You've made clear your criteria there but wondering, given the M&A activity we've seen over the last several months, how valuation expectations have evolved, particularly for the targets that are best (inaudible) sights. Thank you.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Yeah, I mean obviously, you know, when you look at the map, there's a few states that stand out. Pennsylvania is the largest one, kind of right between all our markets. Verano does seem to be buying everything we'd like to buy, unfortunately. And multiples are moving, you know, as capital and valuations got into the sector, multiples are moving up. We still think there are a number of attractive acquisitions out there. We think it's going to be very tough for independent SSOs to operate in the intermediate future. We want to be a big player in Pennsylvania, but at the same time, you know, we don't have to overpay and we don't have to do a deal we don't want to do, because our investors get, you know, we're the only midcap stock with this kind of exposure to New York and New Jersey and to dilute our investors of that amazing opportunity just for the sake of getting bigger doesn't really make any sense. A deal, just because it's accretive, doesn't mean anything.

There are a number of states where you could buy things at very attractive, accretive multiples, but you get what you pay for and it's very likely that you could end up de-rating as a result. We really love our collection of assets and we've done what we think is a great job in allocating capital and doing deals and we don't want to do a mediocre deal just for the sake of doing M&A. We believe that we are incredibly attractively valued given the quality of our assets and just by executing we have a tremendous amount of upside for our investors just to get to the industry multiple, which is not expensive. So to dilute that with a mediocre acquisition makes no sense.

The other states, obviously we've mentioned we've got two more stores to buy in Illinois. We have Ohio where we're not at our cap internally. You can look at kind of the other states. But you should not expect us to go west of the Rockies or kind of south, you know, somewhere warm where I live anytime soon. But we're always looking to do deals that make sense and certainly I think we could always use great brand and form factors, so we'd rather partner to do an acquisition, but we're open. So we're going to continue to look at the opportunities.

Russell Stanley — Analyst, Beacon Securities

That's great. Thanks for the colour and congrats again.

Operator

Thank you. We have a following question from Graeme Kreindler with Eight Capital. Graeme, please go ahead.

Graeme Kreindler — Analyst, Eight Capital

Hi. Good afternoon and thank you for taking my questions and congratulations on the first quarter as a public entity here. I wanted to follow up with respect to the comments made at the top of the call regarding branding initiatives. And you graded yourself a B there. I wanted to get some more colour regarding what the strategy is on a go-forward basis, how Ascend is going to look to continue to be more competitive there on the branding side. Does that lead with retail first? Does that come at the product level? And I know, given the recent initiative here with Lowell, you're starting to bring some of that California east, as you mentioned. If you can provide some more details on that, that would be appreciated. Thank you very much.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Yeah, look, we all know that this is a consumer product and you look out five years, ten years and brands are going to be important and customers are going to have brands that they like and prefer and they're going to go into a dispensary and ask for brands by name. Sooner or later. But that's just not the case now. We forget, all of us on this call, because we're in this day to day, how new this is to customers. They just want a good, consistent product.

One of the reasons for our success in Illinois has been every day that you've gone into our store since January 1, 2020 when this thing went rec at six in the morning with a line that was hundreds deep was that you can get a pre-roll, an eighth, an edible, and a vape at an Ascend store. And that's huge. That's huge. It's huge in every state. Customers, they don't want to go, they don't want to wait in line, they don't want to know you're sold out of anything. And so we view branding in this industry as product availability. That's really what it is right now. It doesn't mean it's going to be long term. So we need to scale up our operations and put a good, consistent product on the shelf and really work with our wholesale partners to put something online.

Now we also, on a branding strategy, employ what we call the target model, where we want someone to go into the store and go for great brands, you know, we mentioned things like Incredibles and Mindy's in Illinois, but at the same time, when they walk out and check out, we want 50% of our basket to be Ozone products. So we're really competing in the good-and-better space right now and we're basically partnering and working with our partners on the best space. Over time, we want to compete in the best space too, but right now we drive our margins with the good-and-better. We would put our flower, our edibles, our vapes, our live resin pens up with anybody in the industry and we think that our Ozone brand just continues to do better and better as we scale and get better and better at each of those products.

In the case of partners, it's tough to do deals. These companies are small and have their own issues, particularly the California ones, and so it's been tough getting deals done. We have been able to do deals with Cookies, Lowell under new management, 1906, Airopro, and we should announce a few more pretty soon, and we think that's just a great way to bring product selection to our customers. And, by the way, that makes us smarter. When we're sitting here making great products for our customers, we start to learn what's important with branding, what's important with form factors, and we expect to launch best products under new brands shortly. Right now we've got the Ozone and the Ozone Reserve and we're trying to make those the best products in the good-and-better categories.

Graeme Kreindler — Analyst, Eight Capital

Understood. Appreciate the colour there. And on a separate note, you characterized Ascend as an MSO 2.0 and a very focused footprint, a focused group of assets, and a stress on location here. As we contemplate a reality, or a potential reality I should say, where interstate commerce comes into play in the U.S. industry, and this could very well be a number of years away, but how do you think about Ascend's ability to compete in that type of environment? There's been more of your competitors discussing potentially setting up some infrastructure or having some natural advantages based on where their assets might be for that type of environment. Just curious towards your thoughts on how that might unfold and your current positioning and how that could leverage into such a situation. Thank you.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Yeah, look, we respect every competitor. Obviously, there's a ton of whitespace in this industry and everybody can go about it as they think, and I think there's room for all of us to be winners with different strategies. That said, we're not looking to become a flower factory to service the country. That's not the objective of Ascend. So we want to service our markets, service them well, but we're not looking to buy 10,000 acres in Nevada.

We think that, obviously, with interstate commerce (inaudible) becomes a commodity and flower starts to become a commodity, but everything else is a premium product, whether it be from edibles, vapes, high-quality indoor flower, and if I grow, you know, just like wine, I can grow high-quality flower in the dead of New York indoors and I don't have a disadvantage to someone in Colorado or California.

So the bulk of our products really wouldn't be affected by interest commerce and, most importantly, we control the pipes. These are hard-to-enter markets and we, along with other people, control the pipes. We want to be an economies-of-scale distributor. And if you are an acquirer of Ascend or any other MSO, you're not buying our ability to grow in 10,000 acres. You're buying our distribution network and our brands and our stores.

We build our brands through our store network. When you go into the number-one store in Illinois, stores right off the Loop in Chicago, a Boston store downtown, that generates brands. Those shelf spaces become increasingly valuable as brands start to come into the market, because it's going to be really hard to be a leading brand in our states without being in the leading dispensaries. So we think, right now, obviously, power goes to growing cannabis, because we're in short supply, but over time, like any other consumer product, we move to a three-tier distribution system, the stores, the brands, and the distribution network drive the value, not growing a commodity flower.

So this is all kind of, you know, this is very hypothetical and a ways out, but that's how we see the market developing and that's where we see the competitive advantage of Ascend.

Daniel Neville — Chief Financial Officer, Ascend Wellness Holdings

And I think if you look at premium indoor flower pricing in California, even in the dead of COVID, it held up pretty well. Obviously, distillate pricing, trim pricing, there's very big deltas between what's going on in our markets relative to what you can get out in California, but that market where you have a lot of black market competition, you have greenhouse, you have outdoor competition, you know, indoor premium flower requires a significant investment to actually get out the door and consumers, especially our consumers, want premium indoor flower.

Graeme Kreindler — Analyst, Eight Capital

All right. Understood. Thank you very much for the colour. Appreciate it. And congrats again.

Operator

Thank you. Your next question comes from Eric Des Lauriers with Craig-Hallum. Eric, please go ahead.

Eric Des Lauriers — Analyst, Craig-Hallum Capital Group

Great. Thanks for taking my questions, guys, and congrats on the very strong Q1 here. A bit of a follow up to the previous question, I was wondering if you could expand a bit more on your wholesale strategy, help us understand how you view the current brand portfolio now, any sort of holes in the product mix there that you might look to fill, and then overall how you guys think about the trade-off between sort of maximizing wholesale distribution through basically getting your products into as many third-party stores as possible and the trade-off between that and maximizing retail margins and basically maximizing that mix of your products that are sold in your stores. Thanks.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Yeah, obviously that's a great question. I mean that's what we do, all day every day, is try and figure out those issues state by state.

I would say, from the wholesale, like we said, I think distribution is critical. We're in 95 of the 101 stores in Illinois. We want to be in every store. And we don't think it's about brands right now. We think it's about quality distribution. We believe if you—you need to agree to show up every week to every store. You need to get on the phone and find out what these stores need. You need to be able to deliver what you say. And that might seem obvious to most Americans in most industries, but most cannabis companies in most states cannot do that. So, just by being a consistent supplier, you can be a partner. And so everyone's focusing on brands. These guys need product and they need consistent product that they can count on that's what we're trying to do.

In terms of our stores versus others, over time, you know, it's two separate businesses. The wholesale should supply everybody in the retail. Right now, we need to protect our customers, which means when you come into our store, like I said, product availability comes first. So, as shortages come on line or happen in these states, our advantage and the advantage of all the vertical operators is to be able to fill our stores and provide our customers with access to product. That means our customers are going to be like, “Why do I need to try the new store? I will stay with Ascend because I know they have what I want.”

So, for us, the key in the next couple of years is to use our wholesale to protect our customers in our stores. Long term, we want to be in every store as a good partner. And if we’re, you know, we’d love to be great on brands, no question, and we’re working on that, but we also want to be great at distribution, because if you are great at distribution, when you have the best salespeople and the most trucks and able to do it, that is a huge competitive advantage that will drive the business and allow third-party distribution once these businesses open up.

Eric Des Lauriers — Analyst, Craig-Hallum Capital Group

Okay, great. That’s definitely helpful. I appreciate colour there. And then another follow up to that, and maybe too difficult to answer at this stage of the industry, but if we sort of fast forward to post interstate commerce, do you guys sort of have a preference between wanting to be on the wholesale branded side of things and have your brands in as many distribution or retail outlets at that time, whatever that may look like, or do you envision you guys more so doubling down on being like the flagship retailer in the industry? A bit of a crystal ball question, lots of moving parts, and certainly many years down the road here, but just, to the extent that you can, sort of help us understand how you think about your longer-term positioning and where that strength lies. Thank you.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

I love how we can't get anything through congress, you know, we can't get consistent banking, and we're talking about interstate commerce. But I hear you. It is definitely coming long term. But I would say that it's all valuable. I think the pipes are valuable, the brands are valuable. Our competitors are really our partners, our customers are distributors. We've got room for every brand and I think we will for a while. So I don't view it as a choice. We want to be good at everything right now. And what's going to have long-term value? I think building great brands is going to have long-term value, great distributions, and flagship assets. So, all of us want to get as good as we can in all those businesses. I don't have to make a choice right now. I understate at some point I might have to, but right now I don't have to make a choice.

Eric Des Lauriers — Analyst, Craig-Hallum Capital Group

Thanks. Appreciate that insight.

Operator

Thank you. There are no further questions at this time. Mr. Kurtin, you may proceed.

Abner Kurtin — Chairman, Founder & Chief Executive Officer, Ascend Wellness Holdings

Thank you, everybody, for joining our first call. We'll speak to you very shortly. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.